

Valmec Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Valmec Limited
ABN:	94 003 607 074
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	Down	4.6% to	47,475
Profit from ordinary activities after tax attributable to the owners of Valmec Limited	Down	17.2% to	1,342
Profit for the half-year attributable to the owners Valmec Limited	Down	17.2% to	1,342

Dividends

It is not proposed to pay a dividend.

Commentary

Refer to the "Review of Operations" section included within the directors' report of that attached financial report for the half year ended 31 December 2018.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>16</u>	<u>20</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Details of associates and joint venture entities

Not applicable.

7. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

8. Attachments

Details of attachments (if any):

The Interim Report of Valmec Limited for the half-year ended 31 December 2018 is attached.

9. Signed



Signed _____

Date: 19 February 2019

Steve Dropulich
Managing Director

Interim Financial Report

For the half-year ended 31 December 2018

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Directors

Mr Stephen Zurhaar
Non-Executive Chairman

Mr Steve Dropulich
Managing Director

Mr Vincent Goss
Non-Executive Director

Mr Stephen Lazarakis
Non-Executive Director

Mr Peter Iancov
Non-Executive Director

Company Secretary

Mr Harveer Singh

Registered Office

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ASX Code

VMX

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Share Registry

Automic Registry Services
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PERTH WA 6000
Telephone: 1300 288 664

Auditor

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade
Perth WA 6000

Telephone: +61 8 9261 9100

The directors of Valmec Limited submit herewith the financial report of the consolidated entity for the half-year ended 31 December 2018.

Directors

The names and particulars of the directors of the Company during or since the end of the financial period are:

Name	Status
Steve Dropulich	Managing Director
Stephen Zurhaar	Non-Executive Chairman
Vincent Goss	Non-Executive Director
Peter Iancov	Non-Executive Director
Stephen Lazarakis	Non-Executive Director

PRINCIPAL ACTIVITIES

Valmec Limited is a diversified energy and infrastructure services group providing compression and processing equipment, construction, commissioning and maintenance services to the oil and gas, resources and infrastructure sectors throughout Australia.

The principal activities of the consolidated group during the half year were:

- Gas Compression and Metering;
- Process Services Engineering, Procurement and Construction;
- Mining Services Multi-Discipline Construction;
- Petrochemical and Mining Fabrication;
- Electrical and underground services;
- Earthworks and civil engineering;
- Gas Facility Operations and Maintenance Services;
- Supply of Packaged Equipment, Parts and Inventory services;
- Asset Inspection, Preservation and Testing Services.

Valmec operates from major offices and facilities in Perth and Brisbane with regional offices and workshop facilities in Roma (QLD), Sydney and Adelaide.

REVIEW OF OPERATIONS

Revenues

Valmec recorded sales revenues of \$47.5 million for the six month period, with H2FY19 revenues expected to grow significantly.

Revenue for the period whilst marginally down on the previous corresponding period (4.6%), is reflective of the delayed start to construction activity across Valmec's Energy clients. Significant increase in construction activity is expected in the second half of the year underpinned by over \$40 million of new contracts secured since December 2018 including the recent award of the Jemena Atlas Gas Pipeline project.

Revenue generated from the Energy Construction segment for the period was \$23.1 million whilst the Services division contributed increased revenues of \$24.4 million, up 43% over the corresponding period. The growth in the Service division is mainly attributed to the introduction of APTS revenues which has experienced a strong start to the financial year.

Based on a growing order book which now exceeds \$80 million and with the mobilization of all construction projects having now commenced, Valmec anticipates stronger revenues across all divisions in H2FY19 and into FY2020 leveraging off a robust tender pipeline with new and existing clients. Increased activity levels in the sector continue to be indicative of the change within our industry sectors from their investment phase to the production and operations phase of the cycle.

Earnings

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) for the period was \$3.2 million marginally down on the previous corresponding period.

Stronger revenue contributions from the Service Division during the half generated growth in total Gross Margin recovery rates, more than compensating for the timing delays in Construction activity during the period. For the six month period, Gross Margins averaged 18.8% up significantly from the prior period. (2017: 15.4%).

With revenue activity across all Valmec divisions expected to be stronger within the second half, earnings are also expected to be substantially stronger during this period, with EBITDA margin recoveries anticipated to further strengthen.

Earnings per share for the reporting period was 1.09 cents, a decrease from previous year to due increased number of shares on issues currently from a capital raise and option conversion back in January 2018 of 42,922,083 shares.

Balance Sheet

During the financial period, the company adopted the new accounting standard AASB15, Revenue from Contracts with Customers, resulting in a recorded reduction of net assets to \$27.3 million through an opening retained earnings adjustment of \$5.3 million (after tax). Disregarding the impact of AASB 15, net assets ended the six month period in a stronger position, with profitable trading performance translating into net assets growth of \$1.2 million or circa 5% over the June 2018 total.

The adoption of AASB 15 also resulted in Current trade and other receivables being decreased by \$7.6M.

Increasing service activity as well as the ramp up in construction activity towards the end of the half was reflected in short term working capital movements. With the mix of Cost of Sales being skewed towards higher than normal labour volumes requiring weekly payments offset against average Client receipt cycles of 35 – 45 days, negative Net Cash from Operations was recorded during the first half. \$2.1M of receipts from clients received after 31 December 2018 cutoff also impacted on the reporting of Net Cash from Operations.

With project execution on delayed contracts now well commenced, Net Cash from Operations is expected to improve significantly during H2FY19.

Net Tangible Asset backing moved from 20c per share to 16c per share as a result of adopting AASB 15.

Projects and Tenders

During the period, the Group continued to experience growth in its tender pipeline as well as commence a larger number of diverse projects and service contracts across Australia. These included larger gas upstream construction projects, government infrastructure services and gas operations and maintenance contracts.

Valmec's current Order Book and its tender pipeline continues to be significantly leveraged to the burgeoning East Coast gas market which continues to provide opportunities due to moratoria on gas exploration, shut-down of coal fired generation and increasing LNG demand.

Key construction and service contracts awarded during the period include the following:

1. Facility Construction works for Jemena on its Atlas Gas Pipeline Project in South West Queensland [\$22.1 million];
2. Infrastructure construction and services works for Water Corporation's various Western Australian facilities [\$15.1M];
3. Renewal of Long term Services contract with Origin Energy Resources Limited for the APLNG Project [\$15 Million]
4. Multi-year contract with Sydney Water for major equipment maintenance and overhauls of their Renewable Energy Co-generation Plant assets [~\$4M];
5. APTS Testing and Inspection services on the Tanami Gas Pipeline for MPC Kinetic [\$4.7M];
6. Compression equipment overhaul and maintenance services for APA Group on their Sole Orbost Project in Victoria [\$3M] ;

Valmec enters the 2019 calendar year with an Order Book of circa \$80 million and a strong pipeline of construction and service opportunities worth over \$550 million.

Safety

Valmec continued to advance its HSE programs and delivery milestones during the period and was able to finish the calendar year once again improving upon its industry leading safety performance.

December 2018 saw the Company record over 2,033,026 hours being worked without a lost time injury (LTI).

Valmec also finished the year with a total recordable injury frequency rate (TRIFR) of 0.34.

Outlook

Underpinned by a strong order book and tender pipeline, Valmec expects second half revenues and earnings to be significantly higher than the current reporting period with total FY19 earnings now expected to exceed FY18.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

This report is made in accordance with a resolution of directors, pursuant to section 306(3) (a) of the Corporations Act 2001.

On behalf of the directors



Steve Dropulich

Managing Director

Dated: 19th February 2019



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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Valmec Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) Any applicable code of professional conduct in relation to the review.

RSM
RSM AUSTRALIA PARTNERS

A Whyte
ALASDAIR WHYTE
Partner

Perth, WA
Dated: 19 February 2019

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Consolidated statement of comprehensive income for the half-year ended 31 December 2018

	Half-year ended 31 December 2018	Half-year ended 31 December 2017
	\$000	\$000
Revenue	47,475	49,779
Cost of sales	(38,543)	(42,095)
Gross profit	8,932	7,684
Other income	239	125
Depreciation and amortisation expenses	(777)	(574)
Employee benefits expenses	(3,543)	(2,886)
Finance costs	(619)	(549)
Occupancy expenses	(971)	(454)
Professional fees	(384)	(380)
Other expenses	(1,013)	(668)
Profit before income tax expense	1,864	2,298
Income tax expense	(522)	(677)
Profit after income tax expense for the half-year	1,342	1,621
Other comprehensive income	-	-
Total comprehensive income for the half-year	1,342	1,621
Earnings per share		
Basic and diluted (cents per share)	1.09	1.98

The above statement should be read in conjunction with the accompanying notes.

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	Note	31 December 2018	30 June 2018
Current assets		\$000	\$000
Cash and cash equivalents		2,077	2,747
Trade and other receivables		14,410	16,218
Contract assets		8,700	13,388
Inventories		7,535	7,129
Other current assets		1,161	601
Total current assets		33,883	40,083
Non-current assets			
Property, plant and equipment		10,831	10,606
Deferred tax assets		3,420	1,637
Intangible assets		3,528	3,510
Total non-current assets		17,779	15,753
Total assets		51,662	55,836
Current liabilities			
Trade and other payables		15,588	19,001
Contract liabilities		-	592
Borrowings		5,495	1,105
Provisions		1,845	1,649
Total current liabilities		22,928	22,347
Non-current liabilities			
Borrowings		1,258	1,765
Other provisions		93	234
Total non-current liabilities		1,351	1,999
Total liabilities		24,279	24,346
Net assets		27,383	31,490
Equity			
Issued capital	4	16,627	16,627
Reserve		301	372
Retained earnings		10,455	14,491
Total equity		27,383	31,490

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2018

	Issued capital	Share base payment reserve	Retained earnings	Total
	\$000	\$000	\$000	\$000
Balance as at 1 July 2017	6,184	308	10,714	17,206
Profit after income tax for the half-year	-	-	1,621	1,621
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	1,621	1,621
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments	-	29	-	29
Share buy back	(33)	-	-	(33)
Balance as at 31 December 2017	6,151	337	12,335	18,823
Balance as at 1 July 2018	16,627	372	14,491	31,490
Adjustment for change in accounting policy (note 1)	-	-	(5,378)	(5,378)
Balance at 1 July 2018 - restated	16,627	372	9,113	26,112
Profit after income tax for the half-year	-	-	1,342	1,342
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	1,342	1,342
<i>Transactions with owners in their capacity as owners:</i>				
Share based payments	-	(71)	-	(71)
Balance as at 31 December 2018	16,627	301	10,455	27,383

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the half-year ended 31 December 2018

	Half-year ended 31 December 2018	Half-year ended 31 December 2017
	\$000	\$000
Cash flows from operating activities		
Receipts from customers	46,525	46,060
Payments to suppliers and employees	(49,720)	(45,356)
Interest received	4	4
Borrowing costs paid	(619)	(549)
Net cash provided by operating activities	(3,810)	159
Cash flows from investing activities		
Payments for plant and equipment	(1,062)	(295)
Proceeds from disposal of plant and equipment	40	150
Net cash (used in) investing activities	(1,022)	(145)
Cash flows from financing activities		
Proceeds/(Repayments) from borrowings, net	141	(269)
Cash received pending allotment of shares	280	-
Net cash (used in) financing activities	421	(269)
Net (decrease) in cash held	(4,411)	(255)
Cash and cash equivalents at the beginning of the half-year	2,747	(993)
Cash and cash equivalents at the end of the half-year*	(1,664)	(1,248)

* Total Cash and cash equivalents as at 31 December 2018 includes \$3,741,090 bank overdraft that is classified under borrowings in the consolidated statement of financial position.

The above statement should be read in conjunction with the accompanying notes.

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1. Significant Accounting Policies

This general purpose financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Valmec Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

2. Significant Accounting Policies (Continued)

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

Impact of adoption

AASB 9 and AASB 15 were adopted using the modified retrospective approach and as such comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2018 was as follows:

	1 July 2018
	\$'000
Contract assets (AASB 15)	(7,683)
Tax effect on the above adjustments	<u>2,305</u>
Impact on opening retained profits as at 1 July 2018	<u><u>(5,378)</u></u>

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

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1. Significant Accounting Policies

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Rendering of services

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Contract assets

Contract assets are recognised when the consolidated entity has transferred goods or services to the customer but where the consolidated entity is yet to establish an unconditional right to consideration. Contract assets are treated as financial assets for impairment purposes.

1. Significant Accounting Policies

Customer acquisition costs

Customer acquisition costs are capitalised as an asset where such costs are incremental to obtaining a contract with a customer and are expected to be recovered. Customer acquisition costs are amortised on a straight-line basis over the term of the contract.

Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained or which are not otherwise recoverable from a customer are expensed as incurred to profit or loss. Incremental costs of obtaining a contract where the contract term is less than one year is immediately expensed to profit or loss.

Customer fulfilment costs

Customer fulfilment costs are capitalised as an asset when all the following are met: (i) the costs relate directly to the contract or specifically identifiable proposed contract; (ii) the costs generate or enhance resources of the consolidated entity that will be used to satisfy future performance obligations; and (iii) the costs are expected to be recovered. Customer fulfilment costs are amortised on a straight-line basis over the term of the contract.

Right of return assets

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

1. Significant Accounting Policies

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

Refund liabilities

Refund liabilities are recognised where the consolidated entity receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the consolidated entity does not expect to be entitled and is updated at the end of each reporting period for changes in circumstances. Historical data is used across product lines to estimate such returns at the time of sale based on an expected value methodology.

1. Revenue

	31 Dec 2018	31 Dec 2017
	\$000	\$000
<i>Revenue from contracts with customers</i>		
Sale of goods	6,955	8,348
Rendering of services	40,520	41,431
	<u>47,475</u>	<u>49,779</u>
<i>Other revenue</i>		
Other revenue	239	125

2. Revenue

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Energy		Total
	Construction	Service	
Consolidated - 31 Dec 2018	\$'000	\$'000	\$'000
<i>Sectors</i>			
Oil and Gas	23,090	24,385	37,499
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>
<i>Geographical regions</i>			
Australia	23,090	24,385	47,475
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>
<i>Timing of revenue recognition</i>			
Goods transferred at a point in time	-	6,518	6,518
Services transferred over time	23,090	17,867	40,957
	<u>23,090</u>	<u>24,385</u>	<u>47,475</u>

AASB 15 was adopted using the modified retrospective approach and as such comparatives have not been provided for disaggregation of revenue.

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2. Segment information

Description of segments

Management has determined the operating segments based on reports reviewed by the Board of Directors for making strategic decisions. The current Board of Directors monitors the business based on operational and geographic factors, and has determined that there is only one relevant business segment.

For the half-year reporting period ended 31 December 2018, the Energy Construction division contributed revenue of \$23.1 million (2017: \$35.8 million) and the Services division contributed revenue of \$24.4 million (2017: \$13.9 million). Included in these amounts is \$1.4 million (2017: \$1.0 million) of inter-entity revenue, which is eliminated on consolidation. The operating divisions are exposed to similar risks and rewards from operations and are only segmented to facilitate appropriate management structure.

The directors believe that the aggregation of the operating divisions is appropriate for segment reporting purposes as they:

- perform similar services for the same industry sector;
- provide a diversified range of similar services to a large number of common clients;
- utilise a centralised pool of assets and shared services in their service delivery models; and
- operate predominately in one geographical area, namely Australia

The consolidated entity is domiciled in Australia. All revenue from external customers is generated from Australia only. Segment revenues are allocated based on the country in which the customer is located.

All the assets are located in Australia only. Segment assets are allocated to countries based on where the assets are located.

3. Equity – issued capital

	31 Dec 2018	30 June 2018	31 Dec 2018	30 June 2018
	Shares	Shares	\$000	\$000
Ordinary Shares- fully paid	124,598,708	124,598,708	16,627	16,627

Movements in ordinary share capital

	31 Dec 2018	31 Dec 2018
	Shares	\$000
At the beginning of the half-year	124,598,708	16,627
At the end of the half-year	124,598,708	16,627

4. Contingent liabilities and assets

The consolidated entity has given bank guarantees as at 31 December 2018 of \$5,538,189 (30 June 2018: \$7,810,000) to various customers.

Other than the above, there were no material changes to contingent liabilities or assets since 30 June 2018.

5. Events after the reporting period

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

6. Dividends

The directors do not recommend the payment of a dividend in respect of the half-year ended 31 December 2018.

7. Commitments

There are no changes to operating lease commitments since 30 June 2018, except for new lease commitments entered by the group during the half year.

Non-cancellable operating leases contracted for but not recognised in the financial statements	31 Dec 2018 \$000
Payable – minimum lease payments:	
- not later than 1 year	914
- between 2 and 5 years	2,832
- later than 5 years	-
	3,746

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DIRECTORS' DECLARATION

The directors of Valmec Limited declare that:

1. The financial statements and notes, as set out in this half-year financial report, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.
2. In the director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The declaration is made in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



Steve Dropulich

Managing Director

Dated: 19th February 2019

RSM Australia Partners

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF VALMEC LIMITED

We have reviewed the accompanying half-year financial report of Valmec Limited which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Valmec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Valmec Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Valmec Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

RSM
RSM AUSTRALIA PARTNERS

Perth, WA
Dated: 19 February 2019


ALASDAIR WHYTE
Partner